

## Message Text

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ORIGIN EB-03

INFO OCT-01 ISO-00 /004 R

66614

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APPROVED BY: EB:JMDERHAM

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R 131737Z OCT 75

FM SECSTATE WASHDC

INFO USMISSION OECD PARIS 2115

C O N F I D E N T I A L STATE 243450

FOR ASSISTANT SEC ENDERU

FOLLOWING REPEAT KUWAIT 4125 ACTION SECSTATE INFO  
ABU DHABI BEIRUT CARACAS DHAHRAN DOHA JIDDA LAGOS LONDON  
TEHRAN BAGHDAD DTD 11 OCT

QTE

C O N F I D E N T I A L KUWAIT 4125

E.O. 11152: GDS

TAGS: ENRG KU

SUBJECT: KOC TAKEOVER AGREEMENT ANNOUNCED BUT NEGOTIATIONS  
NOT COMPLETE

REF: KUWAIT 4017

SUMMARY: GOK HAS ANNOUNCED COMPLETION OF NEGOTIATIONS REGARDING  
TAKEOVER OF KUWAIT OIL COMPANY. COMPANIES WILL RECEIVE \$66  
MILLION FOR THEIR REMAINING 40 PERCENT SHARE OF COMPANY AND WILL  
BE GIVEN ASSURED ACCESS TO 1.3 MILLION BPD KUWAITI CRUDE OVER  
NEXT FIVE YEARS. COMPANY SOURCE HAS TOLD US THAT FINAL PRICE-  
PER-BJRRREL AND COMPENSATION TERMS REMAIN TO BE WORKED OUT, BUT  
HE HOPES THIS WILL BE DONE OVER NEXT FEW DAYS. IN ADDITION TO  
ABOVE, GOK WILL ENTER INTO SERVICE AND COOPERATION AGREEMENTS  
WITH GULF AND BP, AND GULF OFFICIAL BELIEVES ITS FUTURE  
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RELATIONSHIP WITH KUWAIT LIKELY TO BE SIGNIFICANT. END SUMMARY.

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1. KUWAIT OIL MINISTER KAZEMI HAS ANNOUNCED THAT GOK HAS COMPLETED NEGOTIATIONS WITH GULF AND BP REGARDING TAKEOVER THEIR REMAINING 40 PERCENT INTEREST IN KUWAIT OIL COMPANY. ANNOUNCEMENT WAS MADE THURSDAY OCTOBER 9 FOLLOWING FOUR HOURS OF DISCUSSIONS BETWEEN MINISTRY OF OIL AND COMPANY OFFICIALS. ACCORDING TO ANNOUNCEMENT, COMPANIES WILL SHARE \$66 MILLION IN COMPENSATION AND WILL HAVE ASSURED ACCESS TO 1.3 MILLION BPD KUWAITI CRUDE FOR FIVE YEARS AFTER WHICH TOTAL AVAILABLE WILL BE REDUCED TO 800,000 BPD.

2. IN MAKING ANNOUNCEMENT KAZEMI JUSTIFIED TERMS, WHICH WERE BETTER FOR COMPANIES THAN HAD UNTIL THEN BEEN PUBLICLY INDICATED, AS BEING NECESSARY TO GIVE GOK TIME TO ESTABLISH ITS OWN MARKETING INSTITUTIONS AND CAPABILITIES. HE SAID THAT SOME ISSUES, SUCH AS DIFFERENTIALS AND ACTUAL PRICE TO BE PAID, REMAIN TO BE WORKED OUT.  
END UNCLASSIFIED

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3. RALSTON OF GULF BRIEFED AMBASSADOR THURSDAY AFTERNOON. HE PLACED GREATER EMPHASIS THAN KAZEMI ON SIGNIFICANCE OF REMAINING ISSUES. HE SAID HE WAS CONVINCED BY KAZEMI THAT IF COMPANIES DO NOT ACCEPT 15 CENT PER BARREL DIFFERENTIAL OFFERED BY GOK, KUWAITI NATIONAL ASSEMBLY AND CABINET MIGHT REDUCE OR ELIMINATE DIFFERENTIAL ALTOGETHER. HE INDICATED COMPANIES WILL THEREFORE GRUDGINGLY ACCEPT 15 CENT DIFFERENTIAL. HOWEVER, HE SAID ACTUAL PRICE PER BARREL HAD NOT YET BEEN AGREED UPON. COMPANIES ARE ARGUING THAT NEW PRICE FOLLOWING RECENT OPEC 10 PERCENT PRICE INCREASE (\*11.41) EVEN WITH DIFFERENTIAL IS SIMPLY NON-COMPETITIVE. RALSTON SAID KAZEMI SEEMS TO UNDERSTAND AND APPRECIATE THIS POINT AND APPEARS WILLING INSERT SOME LANGUAGE IN FINAL AGREEMENT TO EFFECT THAT GOK WILL CALCULATE DIFFERENTIAL FROM "COMPETITIVE AND REASONABLE" PRICE BASE. AS OF SATURDAY, HOWEVER, NEGOTIATIONS ARE CONTINUING.

4. IN ADDITION, EXACT COMPENSATION PACKAGE REMAINS TO BE WORKED OUT. ALTHOUGH GOK HAS MENTIONED ONLY \$66 MILLION FIGURE, IT HAS RAISED SEVERAL OLD CLAIMS OF ITS OWN, AND UNTIL  
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AGREEMENT REACHED REGARDING THEIR NET COMPENSATION TO COMPANIES WILL NOT BE DETERMINED.

5. FINALLY, GOK DID MAKE CLEAR TO GULF THAT IT WISHES TO ENTER INTO SERVICE CONTRACT WITH AMERICAN COMPANY AND TO GIVE SERIOUS CONSIDERATION TO COOPERATING TOGETHER WITHIN AND OUTSIDE KUWAIT BOTH IN PETROLEUM AND NON-PETROLEUM-RELATED ACTIVITIES. GULF CONSIDERS SERVICE CONTRACT AS POTENTIALLY

SIGNIFICANT, PARTICULARLY IF, AS IT EXPECTS, KOC WILL HAVE MAJOR ROLE IN GAS AND PETROCHEMICAL PROJECTS HERE. NOT CLEAR WHETHER GOK-BP SSRVICE CONTRACT IS SIMILAR; WE UNDERSTAND THAT GOK MUCH PREFERS WORKING WITH GULF, BUT AS REPORTED EARLIER GOK MAY WISH TO COOPERATE WITH BP IN SOUTH YEMEN AND PERHAPS ELSEWHERE.

6. RALSTON SAID HE AND BP CHIEF NEGOTIATOR MARSTON<sup>7</sup>SMITH WILL REMAIN IN KUWAIT UNTIL REMAINING POINTS ARE AGREED UPON. HE HOPES THIS WILL NOT TAKE MORE THAN A FEW DAYS, AND WE SHALL REPORT COMPLETION OF NEGOTIATIONS ONCE THAT EVENT OCCURS.

7. COMMENT: KOC TAKEOVER TALKS SEEM TO BE GOING ALONG ON SCHEDULE. AS PREDICTED LAST SPRING, GOK USED SUMMER PERIOD TO MOVE NEGOTIATIONS ALONG, AND IT WILL WANT TO HAVE FINAL KOC TAKEOVER PACKAGE READY FOR PARLIAMENT WHEN IT RESUMES ITS SESSION OCTOBER 28. WE ASSUME ARAMCO OWNERS AND SAG CLOSELY WATCHING DEVELOPMENTS HERE AS WELL AS IN CARACAS. WISH TO NOTE THAT SHOULD SAG NEGOTIATE BETTER DEAL WITH ARAMCO OWNERS, WE BELIEVE GOK WILL SEEK TO REOPEN KOC TALKS AND INSIST ON EQUAL TERMS. HOPEFULLY, THIS WILL NOT HAPPEN, BKT FUWAITIS CAN BE EXPECTED TO WATCH SAUDI TAKEOVER TALKS JUST AS CAREFULLY AS SAUDIS HAVE BEEN WATCHING SITUATION HERE.  
STOLTZFUS UNQTE  
KISSINGER

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** NATIONALIZATION, PETROLEUM INDUSTRY, COMPENSATION, NEGOTIATIONS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 13 OCT 1975  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** CunninFX  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1975STATE243450  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** EB:JMDERHAM  
**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
**Film Number:** D750355-0354  
**From:** STATE  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1975/newtext/t19751059/aaaacalo.tel  
**Line Count:** 140  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ORIGIN EB  
**Original Classification:** CONFIDENTIAL  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:** n/a  
**Previous Classification:** CONFIDENTIAL  
**Previous Handling Restrictions:** n/a  
**Reference:** 75 KUWAIT 4017  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** CunninFX  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 27 MAY 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <27 MAY 2003 by CunninFX>; APPROVED <07 OCT 2003 by CunninFX>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
06 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** KOC TAKEOVER AGREEMENT ANNOUNCED BUT NEGOTIATIONS NOT COMPLETE  
**TAGS:** ENRG, EINV, KU, KUWAIT OIL COMPANY  
**To:** OECD PARIS  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006